

# 'Japanization' of a Performance Appraisal System: A Historical Comparison of the American and Japanese Systems\*

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The Japanese performance appraisal system, which plays an important part in employment practices here, was initially introduced in the 1920s and 1930s, modeled after a system that was gaining wider use in the USA. But after undergoing different histories of development, the two systems in their present form cut a stark contrast. The system now in use in Japan is characterized above all else by the fact that it has kept intact, as its cornerstone, what used to be the defining features of the American system until the early 1930s (e.g. its application to production workers, and non-disclosure of rating results to employees), and has incorporated minor additions of Japanese origin (e.g. an emphasis on ability-based factors), while it has refused to emulate most of the significant changes in the American system since the 1930s. One telling difference between the two systems today can be found in the fact that the Japanese system is frequently (and even intentionally and openly) used as a means of discriminating against 'undesirable' employees. Yet legal, remedial measures for victimized employees remain far from appropriate, whereas in the USA use of the performance appraisal system as a tool of employment discrimination is strictly prohibited by the Civil Rights Act.

## I. Introduction

Performance appraisal, or *jinji-satei* or *jinji-kōka* in Japanese, constitutes an important element of the employment system in Japan (Endo 1994). Initially formulated in the 1920s and 1930s and modeled on the American performance appraisal system, the Japanese version has since then followed its own course of development, taking on its present features, which are significantly different from those of the American system. Basing his analysis on various surveys of the systems now at work in the two countries, Endo (1996) contends that the present-day Japanese system differs from its American counterpart in the following nine respects:

- (1) While under the Japanese system union members are normally subject to performance appraisal, union members in the USA are often excluded.
- (2) While a rating scale is by far the most common method of performance evaluation in Japan, ratings in the USA rely not simply on a rating scale, but also, and frequently, on other techniques developed as alternatives, such as a check-list approach and a management by objective (MBO) approach.

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- (3) The Japanese system is used primarily for making wage and salary adjustments and making decisions on promotion, with little attention paid to its possible use as a means of developing communication between supervisors and subordinates. In contrast, the American system is widely understood to be a means not only of adjusting wages and salaries and making decisions on promotion, but also of promoting communication and drawing training plans.
- (4) Job analysis and job evaluation systems are either non-existent or in a pitiful state in Japan, but are in good working order in the USA.
- (5) The evaluation of production and clerical workers' performance in Japan is affected more strongly by subjective factors than in the USA, where factors considered are more objective.
- (6) Whereas the results of performance appraisal in Japan are often adjusted and forced to fit into a predetermined distribution pattern, such a practice is seldom followed in the USA. In Japan, moreover, even when the first-stage appraisal is made by an absolute rating, the ratings are often adjusted and changed into relative ones at a second or later stages.<sup>1</sup>
- (7) In Japan, the results of performance appraisal are seldom fed back to the individual employees subjected to appraisal. In the USA, employees are asked to review and sign the reports of their performance appraisal.
- (8) The performance appraisal system is used by many private Japanese firms, but very rarely by government offices. In the USA, however, the system is actively used by both private firms and government offices.
- (9) In Japan, the performance appraisal system is sometimes used intentionally as a means of employment discrimination, even though relief measures for those subjected to such discrimination are far from being adequately established. In the USA, the use of the performance appraisal system is subject to Title VII of the Civil Rights Act, which explicitly provides for the relief of those discriminated against in case the law is violated.

The purpose of this paper is to review the development of the performance appraisal systems of the two countries, and identify the reasons and circumstances that have led to these differences.

## 2. Pre-war Emulation of the American System

### 2.1 The Emergence of a Performance Appraisal System in the USA

A performance appraisal system began to take root in the USA in earnest in the period from 1916 to 1924, when it was developed and disseminated actively (Schinagl 1966: chap. 3, esp. 46–59; Paterson 1922; Scott and Clothier 1923: chap. 13, esp. 197–226; Scott *et al.* 1941: chap. 19, esp. 212–236). Walter D. Scott and his colleagues at the Carnegie Institute of Technology's Bureau of Salesmanship Research began to develop a performance appraisal system in 1916, and by 1917 conceived of the archetype of an appraisal method. Subsequently in 1919, the group established the

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1. When a group of workers is subjected to performance appraisal by relative rating, they are evaluated in accordance with criteria internal to the group, with the result that each member is rated in terms of his/her relative standing within the group. Applying a predetermined distribution pattern is a typical instance of relative rating. In contrast, when a group of workers is subjected to performance appraisal by absolute rating, and in accordance with criteria external to the group, they are not necessarily placed in pecking order. As for the practice followed by firms which, even after making absolute ratings at the first stage of appraisal, 'adjust' and change them into relative ratings at later stages (and finally at the personnel department), their behavior is explained by the need to apply company-wide, uniform standards of appraisal, so as to smooth out the natural and unavoidable variations in the rigor with which workers of different sections would be evaluated.

Scott Company, a personnel management consultancy, and continued to make improvements on the appraisal method. An improved version of the appraisal method, called the Graphic Rating Scale, was developed by the company in 1922 and was adopted by a wide range of firms.

As the rating scale came into widespread use by private firms, the Federal government's Civil Service Commission, too, adopted it in 1924 as a means of evaluating the performance of Federal government employees. The adoption of the Graphic Rating Scale by the Federal government provided a major boost to the appraisal technique's further dissemination.

The performance appraisal system that came into wide use in the USA during the 1920s, employing either graphic or non-graphic rating scales, had the following characteristics.

- (1) Private firms adopted the system quite naturally for application to their production workers. Symbolic of this was that trial runs on the 1922 version of the Graphic Rating Scale were carried out with a view to demonstrating that it could be of great help for foremen in evaluating the performance of production workers under their supervision (Paterson 1922).
- (2) The Federal government adopted the system for use in making decisions on employment and salary adjustment (Schinagl 1966: 44), but not for use, at this stage, in promoting communication between supervisors and subordinates, nor designing training plans.
- (3) The main factors taken into account in the appraisal of a worker's performance were his/her traits, with not much consideration given to the relationship between the worker's job contents and performance appraisal. Scott and Clothier in their co-authored book (1923), for instance, make no mention of this relationship, and the book's third edition flatly states that 'the employees may be rated even though the jobs have not been rated' (Scott *et al.* 1941: 237).
- (4) Performance appraisal in Federal government offices was conducted in three stages: by first-tier appraisers, secondary appraisers, and a performance appraisal review committee, the last of which was established in each government office. The review committee was charged with the task of making adjustments to the appraisals of individual employees to ensure that the final results follow a normal distribution curve (Schinagl 1966: 48).
- (5) According to its adopted policy, the Federal government was supposed to inform individual employees of their adjusted, final ratings. However, first-tier appraisers, who were never informed of the reasons for the final adjustments, found it difficult to show or explain the final ratings to their subordinate employees (Schinagl 1966: 48).

Evidently, these features which characterized the American performance appraisal system in the 1920s are quite reminiscent of those of the appraisal system now at work in Japan. The following discussion describes in detail how the current Japanese appraisal system has kept intact some of the features of the American system of the 1920s.

## 2.2 Introducing the American System

The American performance appraisal system was introduced to Japan in the 1920s and 1930s as part of the scientific management method.<sup>2</sup> Two individuals, Masuda Kōichi and Fuchi Tokitomo, played especially instrumental roles in its introduction.

When Masuda was shown the actual Graphic Rating Scale form developed at the Carnegie Institute of Technology's Bureau of Salesmanship Research, he took an interest in it and translated it into

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2. For a discussion of the process by which scientific management was introduced into Japan, see Sasaki (1987).

Japanese for publication (Masuda 1925*a*: 102–112). He seems to have obtained the rating form from Ueno Yōichi, the central figure in the introduction of the scientific management method to Japan, who, in turn, seems to have been given it by Scott or some of his colleagues on a visit to the USA in 1922–1923. In 1925, Masuda also applied the performance appraisal system to a group of Japanese workers on a trial basis and published the findings of his experiment (Masuda 1925*b*: 299–379). This marked the first application of performance appraisal in Japan. Masuda is also considered the first to have used the word *hyōtei-shakudo*, the standard Japanese translation of ‘rating scale’.

Fuchi was instrumental in introducing the 1924 version of the Graphic Rating Scale which was used for evaluating the performance of Federal government employees. He reproduced the rating scale form, and translated it and the attached manual for publication in Japan (Fuchi 1931). What is noteworthy is that he underlined the need for job-content analysis. Fuchi also gave examples of how the rating scale method was being used by large private firms in the USA.

Besides Masuda and Fuchi, a number of others reported about various other performance appraisal methods in use in the USA, and all of their efforts were encouraged and endorsed fully by Ueno Yōichi (Greenwood 1981).

By the late 1930s, the rating scales, either graphic or non-graphic, had been adopted by a limited number of private firms and government offices. Awaji Enjirō, professor of psychology at the Tokyo Imperial University, devoted one chapter of his textbook on personnel management, based on his lectures at the University, to a discussion on the rating scale methods (1939: 275–333). This suggests that the idea of performance appraisal had taken root in Japan by that time. It seems safe to say, moreover, that the Japanese appraisal system at the time was characterized not only by the rating scale method, but also by the five characteristics of the American appraisal system listed above.

### 2.3 Aspects of the American System that Were Not Introduced in Japan

Several facts and developments concerning the American performance appraisal system were left unmentioned to the Japanese public in the pre-World War II era, among which the following six were of particular importance.

- First, the American performance appraisal system was developed almost in parallel with the development and implementation of a job evaluation system (Bethel 1945: 553–555), but this fact was not mentioned by the Japanese advocates except briefly in 1931 by Fuchi.
- Second, the rating scale method was found wanting in the USA because of its tendency to result in subjective evaluation, and a check-list method based on job analysis was proposed in 1931 as an alternative (Probst 1931).
- Third, the Graphic Rating Scale for evaluation of the performance of Federal government employees was abandoned in 1935, and replaced by a more simplified method which partly incorporated the idea of a check-list method (Schinagl 1966: 50), with the result that an employee’s performance came to be evaluated with reference to the requirements of each job. The adoption of the new method reflected the development of job analysis and related techniques.
- Fourth, the single-most important objective of the 1935 switchover in appraisal methods was to do away with the increasingly troublesome shortcomings found in the use of the 1924 version of the Graphic Rating Scale. More specifically, given the pre-existing practice of adjusting the ratings to fit into a normal distribution curve, not only did first-tier appraisers have difficulty informing and explaining the final ratings to their subordinate employees, but the employees also felt dissatisfied with the ratings (Schinagl 1966: 59; Comptroller General of the United

States 1978: 54). The adoption of the new appraisal method facilitated smoother feedback of rating results to individual employees.

- Fifth, the Ramspeck Act of 1940, which provided for the establishment in each government office of a three-person rating re-examination committee (consisting of a management representative, employees' representative, and a chairperson appointed by the Civil Service Commission), made it possible for Federal employees dissatisfied with their performance ratings to challenge them (Schinagl 1966: 54).
- Sixth and finally, as labor unions increased their membership and rapidly gained influence following the enactment of the Wagner Act of 1935, they pressed for and won the recognition of seniority as a priority issue in collective bargaining (Gersuny 1982). And as promotion began to go by seniority in an increasing number of unionized workplaces, the performance appraisal system lost much of its significance and ceased being applied to organized workers.

Thus, the developments concerning the American performance appraisal system that were reported in pre-World War II Japan were only those that had taken place before the early 1930s. The first two facts mentioned above—job evaluation and its accompanying check-list—could have been introduced but these were not, for unknown reasons. All the remaining four developments took place in the mid-1930s or later and, naturally, no information about them became part of public knowledge in Japan.

### 3. Post-war Emulation of the American System

#### 3.1 Labor Unions and the Performance Appraisal System

Performance appraisal systems were adopted by private firms in early post-war Japan in two distinct waves, as shown in Table 1, with the years from 1945 to 1949 or 1950, when the first peak was reached, constituting the first phase, and the subsequent years the second phase. Given that phase 1 is usually regarded by labor historians in Japan as a period of stepped-up labor union offensive and militancy, it is easy to understand that the appraisal system was introduced with the endorsement of

**Table 1.** Adoption of the Performance Appraisal System by Private Firms, Pre-1945 to 1960<sup>a</sup>

Year	1945 or earlier	46–50	51–54	55–57	58–59	60	Year unknown
Number of firms (Number of firms per year)	18	28 (5.6)	40 (10)	16 (5.3)	11 (5.5)	6 (6)	112
Number of firms with a work-force of 1,000 or more (Number of firms per year)	16	26 (5.2)	31 (7.8)	10 (3.3)	7 (3.5)	5 (5)	82
Number of firms with a work-force of between 300 and 999 (Number of firms per year)	2	2 (0.4)	9 (2.3)	6 (2)	4 (2)	1 (1)	30

Source: Anraku (1961: 310).

<sup>a</sup>The table is based on the findings of a survey conducted by Jinjiin (National Personnel Authority) in July 1960.

the labor unions. And the system that was introduced drew on the knowledge disseminated about the American system and its emulation in the pre-war days.

On 13 November 1945, the Japanese government adopted a draft plan for civil service reform, which the press reported the following day as a landmark decision. The announcement of the proposed reform measures, including the introduction of a performance appraisal system, led to one unexpected outcome.

Fuchi Tokitomo, who was inspired by the government's decision, wrote a pamphlet on the appraisal system and published it on 1 October the following year (Fuchi 1946), which, with much the same content as Fuchi (1931), was apparently the first work ever published in post-war Japan on the performance appraisal system.

According to Endo (1995), the introduction of an appraisal system into the electric power industry, accompanied by the industry's adoption of a clearly designed monthly salary system, was among the first in the private sector of post-war Japan. Shortly after the war the industry saw the establishment of Densan, or Japan Electric Power Industry Workers' Union, an industrial union very rare in Japan. A militant union, Densan pressed hard for a clearly designed monthly salary system, which would result in considerable increases in employees' monthly remunerations, and in 1946 forced the power companies' managers into accepting its demand virtually as it stood. The new salary system, known as the Densan salary system, consisted of an age-linked or cost-of-living-indexed portion, which accounted for approximately 80% of an employee's monthly pay, and a performance-based portion, which accounted for the balance. The latter portion was adopted obviously in response to the union's demand.

Despite having deliberated for months on the contents of the proposed performance appraisal system, the Densan leadership was unable to work out its own proposals, most likely because they fell short of winning the support of many members. Consequently, Densan put the task of deciding on the contents of the appraisal system and implementing it in the hands of the power companies' managers. The power companies, after re-examining the system which had been used in pre-war Japan, or the rating scale method which had been widely in use in the USA in the 1920s, devised an appraisal system of their own and put it into effect beginning in 1947. There is a great likelihood that during their investigations into the past experience with the appraisal system the power companies' managers must have referred to Fuchi (1946), either on their own or at the suggestion of Densan leaders.

At any rate, the Densan salary system, which became famous for its age-linked or cost-of-living-linked portion, produced significant effects on collective bargaining across the private sector, and was emulated by a number of firms. The Densan salary system is well known as one of the first seniority-based salary systems adopted in post-war Japan. It should be kept in mind, however, that, as documented by Endo (1995) for the first time, the seniority-based portion of the Densan salary system came into place not alone but accompanied by its twin, performance-based portion. The performance appraisal system underlying the latter portion was introduced through a rather peculiar process in which the union, while having originally proposed the concept of an appraisal system, left the task of designing its contents to the management. This fact suggests that the Densan salary system's dissemination to other firms might have involved the simultaneous dissemination of a performance appraisal system. Fujikura Cable Co. and Tokyo Gas Co., for instance, introduced performance appraisal systems concurrently with seniority-based salary systems.

Labor unions that were organized in the immediate aftermath of the war not only embraced the performance appraisal system, but they sometimes demanded its adoption as well. This stand was apparently motivated by the unions' belief that introduction of a performance appraisal system

would help promote corporate democratization. In pre-war workplaces without any appraisal system, supervisors were free to practice favoritism; but in post-war workplaces, unions, by striving to introduce an appraisal system, would be able to restrain supervisors from practicing favoritism and expand workplace democracy for rank-and-file employees. The fact that the appraisal system was an American invention must have also been an additional source of encouragement for unions, for in the eyes of many Japanese immediately after the war, every institutional set-up at work in the USA appeared to be democratic and worthy of emulation.

Meanwhile, labor unions in the USA, as noted above, rode on the mounting wave of unionization that began in the latter half of the 1930s, and pursued and won the recognition of seniority as their priority issue, and subsequently the performance appraisal system was not applicable to their members. Unlike their American counterparts, Japanese unions did not pursue this policy, perhaps because they were preoccupied with responding to the peculiar sense of egalitarianism which had a very strong grip on its workers. In the immediate aftermath of the war, Japanese workers demanded above all that production (and clerical) workers and white-collar employees in the same company be treated equally (Nimura 1994). This demand led to the formation of enterprise-based unions, encompassing both production and white-collar employees, the latter of whom often included those in considerably high managerial posts. It was thus inconceivable for unions with this peculiar feature to demand that their members be treated by a personnel management system different from the one applied to non-union members—for instance, by a seniority system.

### 3.2 New Information about the American System

The six developments concerning the American performance appraisal system that had been left unreported in Japan, as pointed out earlier, all became part of public knowledge within several years of the war's end. Interestingly enough, Adachi (1947) wrote the first of the literature on these developments, just like Fuchi (1946), upon receiving impetus from the 1945 government decision to carry out a civil service reform. It should be pointed out, however, that not everyone understood all six developments fully. The first three developments—the developments concerning job evaluation—were readily understood by most, but the remaining three were not well understood.

This section will focus on the roles played by the Americans, including those affiliated with the General Headquarters of the Supreme Commander for the Allied Powers (GHQ/SCAP), in disseminating information about the American appraisal system in post-war Japan. GHQ/SCAP's Labor Division repeatedly staged public relations campaigns to emphasize the importance of introducing a job evaluation system into the workplace. These public relations campaigns touched solely upon the first development, but the Labor Division remained totally silent on the performance appraisal system.

Nor did the GHQ/SCAP's Civil Service Division (CSD) make any mention of the appraisal system. One former bureau chief of the Jinjiin (National Personnel Authority; NPA) recalls that when his bureau prepared a blueprint for a performance appraisal system as part of the proposed civil service reform and submitted it to the CSD for approval, the CSD gave no specific instructions or comments about the blueprint (Kaneko 1952: 49). Objectively speaking, the CSD's attitude was very strange, especially considering the fact that the CSD was charged with reform of the civil service; it had handed its own draft National Public Service Law to the Japanese government, and overseen its legislation, with its explicit prescriptions in Article 72 for the implementation of performance appraisal. The reason for the CSD's sudden loss of interest in the appraisal system remains unknown, but there is a possibility that the development then unfolding in the USA in preparation for the 1950 reform of the Federal government employee performance appraisal system (to be discussed below) might have had some impact on the CSD or the GHQ/SCAP.

Although the Americans did not actively advocate the merits of the appraisal system, they did make literature on the system accessible to Japanese researchers. This was invaluable to researchers of the war-devastated country who, otherwise, would not have been able to gain access to the pertinent literature. For instance, a number of copies of the military edition of Yoder (1944), which devoted its twelfth chapter (pp. 334–372) to the explanation of the performance appraisal system, were brought into Japan and made use of by researchers. Another book widely read by Japanese researchers was Smyth and Murphy (1946); one researcher acknowledges that he borrowed a copy of it from a library opened in Nagoya by the US International Cooperation Agency (ICA). Adachi (1947: 1) acknowledges his indebtedness to the GHQ/SCAP's Civil Information and Education Section (CIE) for giving him access to its library.

### 3.3 Nikkeiren and NPA

Phase two of the introduction of the performance appraisal system into Japan began in 1949 or 1950, when an increasing number of private firms began adopting it. Labor historians in Japan agree that this second phase overlapped with the period of stepped-up corporate counter-offensive against labor union militancy. The accelerated dissemination of the appraisal system, therefore, seems to have had much to do with management's hard-line policy. In fact, it was Nikkeiren (Japan Federation of Employers' Associations) that took the initiative in encouraging corporate managers to introduce the appraisal system during phase two.

Nikkeiren's campaign to propagate the appraisal system had several characteristics. First, the campaign was launched somewhat belatedly. It was not until its general assembly in September 1949 that the federation officially resolved to encourage the introduction of the appraisal system into private-sector workplaces. Ten months passed before July 1950 when Nikkeiren's monthly organ carried its first article ever that made direct mention of the appraisal system in its title (Ikusa 1950). It then took another year until July 1951 for Nikkeiren to publish its first pamphlet encouraging the introduction of the system (Nikkeiren 1951). Contrary to the widely accepted view that Nikkeiren launched its campaign to introduce the appraisal system right after the end of the war, the launching of its campaign fell far behind the first wave of the system's introduction, which followed the establishment of the Densan salary system.

Second, Nikkeiren carried out its campaign without paying much heed to the new reports on developments in the American appraisal system. Nikkeiren's 1951 pamphlet did give examples of firms which adopted the appraisal system after the war, but all the cases cited involved the earlier version, which had been designed without considering the relationship between performance appraisal and job analysis. It is indeed characteristic of Nikkeiren's campaign that it remained totally silent on the question, despite the federation's encouragement of corporate managers to carry out job analysis during this same period.

Third, Nikkeiren perceived the appraisal system essentially as a means of placing employees under strict supervision. Nikkeiren was unconcerned about the developments in the American system because they dealt with ways of bringing objectivity and fairness into the appraisal system and, as such, were of little interest to Nikkeiren with its overriding concern to bring employees under stricter control.

The response of labor unions in the private sector to the introduction of the appraisal system in phase two seems to have remained unchanged from that in phase one. This is evident from Table 2, which summarizes the findings of a questionnaire conducted by Nikkeiren in 1961. Indeed, the report on the questionnaire's findings observes: 'Labor unions seem to generally approve of company management's adoption of the performance appraisal system' (Tanaka 1961: 39).

**Table 2.** Procedures Followed by Firms on Introducing the Performance Appraisal System<sup>a</sup>

	<b>Number of firms</b>
Unilaterally introduced by the firm	78
Some measures were taken beforehand	58
Prior notice to the union about the system's adoption	(14)
Prior presentation of the draft appraisal program to the union	(33)
Union participation in the drafting of the appraisal program	(11)
Answer unknown	18

*Source: Tanaka (1961: 39).*

<sup>a</sup>This table is based on the findings of a survey conducted by Nikkeiren (Japan Federation of Employers' Associations) in June 1961. Of the sample of 154 firms, 92 employed 1,000 or more, and 62 employed 999 or less.

The early half of the 1950s also saw NPA design and adopt a performance appraisal system for application to national government employees. Unlike the case of private firms, however, the system's implementation in government offices was frustrated by strong opposition from both high-ranking officials and unions. And even today, the appraisal system as implemented in the government sector is considered to be only nominal.

When NPA was designing an appraisal system for application to government employees in the first half of the 1950s, two issues became foci of heated discussions among personnel managers of various government ministries and agencies: one was whether or not the final rating results should be fed back to individual employees, and the other whether or not the rating results should be adjusted to fit in with a certain distribution pattern. The ways in which these issues were resolved seem to highlight some of the characteristics of the appraisal system as being implemented in Japan.

Let us first see how the issue of whether individual employees should be informed of their final rating results or not was settled. Although NPA favored the idea of notification in one version of its plan, and the idea won fairly strong support from officials of other ministries, it was deleted from the system that actually went into effect. In explaining its decision on the matter, NPA officials emphasized that adopting the notification procedure would result in biases in appraisal, and further pointed out that much the same view was expressed in the Hoover Commission Report. The reference to the Hoover Commission Report, however, is erroneous and unfounded (Hoover Commission Report 1949: 125–132).

What about the wisdom of adjusting the rating results to conform to a preconceived distribution pattern? Despite the strong voices that were expressed against it, the idea was incorporated into the appraisal system that became part of NPA's personnel management rules. National Personnel Authority officials justified this with an argument that rating results, if left unrestrained by a certain distribution pattern, would become too lenient.

The arguments advanced by NPA officials more than four decades ago are echoed today by prominent academics. Koike (1994: 12–23), for instance, argues against notifying individual employees of their rating scores, because the practice, if adopted, would hinder fair appraisal. Inoki (1993: 77) insists that forced distribution of rating results is indispensable for ensuring fair and non-lenient appraisal. These arguments are radically different from the judgments made by American courts to be reviewed below.

## 4. Japanization of the American System during the Rapid Economic Growth Period

### 4.1. The Appraisal System in the USA after the War

Factors that affected or were affected by the development of the performance appraisal in the post-war USA include expanded application of Title VII of the Civil Rights Act; the passage of two laws concerning reforms of the performance appraisal system for Federal government employees; and the increased adoption and refinement of the management by objective (MBO) approach. These developments, arranged in chronological order, can be summarized as follows.

- 1950: Enactment of the Performance Rating Act (to facilitate reforms of the performance appraisal system for Federal government employees; the law calls for, in particular, appraisal based on performance requirements, prompt notice of rating results to employees, and consolidation of an appeal procedure).
- 1957: Douglas McGregor (1957) proposes the idea of management by objective (MBO).
- 1964: Legislation of Title VII of the Civil Rights Act.
- 1972: In its decision on *Rowe v. General Motors* (4 FEP 45 [1972]), the court rules that performance appraisal be governed by Title VII of the Civil Rights Act.
- 1978: The Civil Service Reform Act is passed with the purpose of reforming the performance appraisal system for Federal government employees by encouraging employee participation in the establishment of performance standards that would permit evaluation on the basis of objective criteria.

Most important of these are the developments concerning Title VII of the Civil Rights Act. The 1972 court decision on *Rowe v. General Motors* triggered a phenomenal increase in law suits filed by employees claiming performance evaluation as discriminatory. Court decisions on these cases tended to be in favor of those plaintiffs who made complaints on the grounds, for instance, that no job analysis was in use, that the appraisal system in question was trait-oriented, and that no review of appraisal results was made with employees (Feild and Holley 1982). In other words, what had been the basic features of the American appraisal system since the 1920s came under direct attack by court decisions.

For the rest of the 1970s and thereafter, the appraisal system was forced to incorporate and make use of job analysis, and to transform itself into a job-related or behavior-oriented appraisal system. Also, the practice of notifying employees of their ratings became a standard ingredient of the system. In fact, these changes are reflected in the following two practices that were widely adopted by employers beginning in the 1970s (Endo 1996: 10). One is the practice of having employees sign the rating forms upon reviewing the rating results. This was a guarantee against law suits for practicing discriminatory appraisal, and employers found it necessary to obtain such signatures as evidence of the employee's having been notified of the rating results. Another related practice is that of printing beside the signature space 'a notice about allowing for disapproval', namely, a notice telling the employee that signing the form does not automatically signify approval of the rating results; the notice is considered necessary in order to convince each and every employee to sign the form, even when he/she does not agree with the rating results.

It is safe to assume that Title VII of the Civil Rights Act continued to be applied more widely in the 1980s and after, restraining the appraisal system still further. One instance of this is that forced distribution of rating results—the practice that had by the 1980s been eliminated from a large percentage of workplaces owing to its unpopularity with employees—was found illegal by the courts.

In their book addressed to workers, Rapoport and Zevnik (1989: 163) observe that '[the Massachusetts Supreme Court] did make it clear that such forced curve appraisal systems were inherently unfair (*McCone v. New England Telephone*, 471 N.E. 2d 47, Mass., 1984).' Further, BNA (1994), addressed to personnel managers, notes: 'Forced distribution has severe drawbacks ... The system usually is not defensible in court.' The two commentaries on the appraisal system, written respectively for labor and management, have much the same view of the court judgment on forced distribution of rating results.

#### 4.2. Adherence to the System Introduced before the War

The performance appraisal system in Japan in the 1950s and after followed a course of development quite different from that in the USA. One outstanding feature of the system's history in Japan since the 1950s is that little effort was made to emulate the developments in the American scene that were reported anew in the immediate aftermath of the war, and instead the features of the 1920s system were kept intact,<sup>3</sup> with little attention paid to the changes that the American system was undergoing.

As is well known in Japan, the 1950s saw a number of firms introducing job analysis and job evaluation systems. Nikkeiren, too, encouraged these efforts. Furthermore, a limited number of firms—including Yasukawa Electric Co., for instance—introduced the check-list approach, which at the time was reported to be superior to the rating scale method. These attempts were meant to emulate the first three of the six developments concerning the American appraisal system listed above in subsection 2.3. But most of the limited number of firms that launched these efforts abandoned them by the mid-1960s, finding them unsuitable for their workplaces.

Two factors seem to have caused the failures in these attempts. For one thing, it was technically difficult to introduce job analysis into Japanese firms where the definition or extent of a job is not strictly established. Rather, firms relied on the practice of changing the content of a job flexibly depending on which employee was assigned to it. Japanese workplaces with such characteristics did not lend themselves easily to job analysis. Furthermore, attempts to introduce job analysis seem to have become all the more difficult as the country entered its rapid economic growth process, and as job content began undergoing constant change under the impact of continuing technological innovations and a chronic labor shortage. And if Japanese workplaces were not receptive to job analysis, they were even less so to a check-list method, which makes use of the findings of job analysis.

The second factor was that the labor unions affiliated with Sōhyō (General Council of Trade Unions of Japan) were stubborn in their opposition to job analysis or a job evaluation system. In particular, male workers of middle-to-older age, who constituted the nucleus of the labor movement at the time, and who had strong stakes in the existing seniority- or age-based pay scale, resented the job evaluation system. They believed that its introduction would result in the replacement of the existing pay scale by one based on job evaluation, and in the paring-down of their salaries. Firms, for their part, seeing that technical difficulties were hindering their attempts to introduce job analysis, did not dare press for its adoption overriding labor's opposition.

The failure to introduce job analysis allowed the pre-war practice of performance evaluation to continue thriving, the practice that judged workers' performance not on the basis of job-related factors, but mostly by their personality traits, such as the readiness to work with 'enthusiasm' and

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3. It is worthwhile drawing a parallel with the history of the 'exclusive *keiretsu* car dealership' system, which is often viewed as very peculiar to the Japanese automotive market today. The car dealership system, too, was originally introduced from the USA in the 1920s and has been kept intact until today (Shioji and Keeley 1994).

‘co-operatively’ with fellow workers. And the failed attempts at introducing the check-list method, too, allowed the rating scale method to remain in wide use as in pre-war days. The continued emphasis on workers’ traits in performance appraisal and the ongoing popularity enjoyed by the rating scale method were technically related to each other, in that the rating scale method, among other appraisal methods, is most compatible with the use of non-job-related factors.

Now, let us turn to the question of what developments unfolded in Japan, if any, that corresponded to the above-mentioned legislative developments in the USA that put forced curve appraisal methods out of use, led to the adoption of the practice of informing employees of rating results, and established the appeal system whereby employees unsatisfied with their rating results could appeal for re-examination—namely, the fourth and fifth of the six developments in the American appraisal system. These developments went mostly unheeded in Japan, except when NPA drew its plan for a performance appraisal system for application to government employees. Consequently, the performance appraisal system in a majority of Japanese workplaces kept its various features unchanged from pre-war days. Such features from pre-war days were preserved most likely because they were found well suited to personnel management in Japanese firms. More specifically, forced distribution of rating results seems to have been deemed useful in urging employees to compete with each other, and in particular in encouraging employees with poor rating results to collect themselves and try harder instead of losing interest for a new round of competition and for better performance. When subjected to performance appraisal by means of a forced curve rating method, a group of employees are of necessity ranked in the order of their respective ratings, which of necessity translate into differences in promotion and salary increases. Employees are thus encouraged to compete harder for better ratings. Compared with an absolute rating method unrestricted by forced distribution, which is unlikely to produce a clear-cut ranking of employees, a forced curve rating method is more prone to stimulate competition. Moreover, many of the employees who receive poor ratings are not likely to feel dejected so long as there are some employees below them with poorer ratings.

The absence of notifying employees of rating results, and also of a procedure for re-examination of appraisal results, is obviously closely related to the prevalence in Japan of the practice of rating result ‘adjustment’ and the practice of attaching importance to trait-oriented factors in performance appraisal. If rating results are subjected to ‘adjustments’, the final results may become different from the ratings given by first-tier appraisers, making it difficult for the first-tier appraisers to inform their subordinates of the final results with convincing explanations. And if performance evaluation is based primarily on employees’ traits, not job-related factors, the rating results cannot but be subjective, and, as such, may not be easy to put across to employees who upon notification might find them objectionable.

Managers who can decide on salary increases and promotion of their subordinates without notifying the latter of their rating scores can ‘play God’ *vis-à-vis* the subordinates (McGregor 1957). This is why subordinates in Japan, in spite of their reputed strong sense of equality with managers, are actually infused with a perpetual sense of dependence on managers.

### 4.3. Ability-Based Personnel Management

The second outstanding feature of the history of the performance appraisal system in post-war Japan was its transformation consequent upon the adoption of ability-based personnel management in the 1960s and thereafter.

An increasing number of firms began to adopt ability-based personnel management in the mid-1960s. This trend was observed and further reinforced by a well-known book published by Nikkeiren (1969*a*). One of the most important implications this had was that ability-related factors,

or employees' abilities (such as judgment, leadership, planning ability, and negotiating ability), came to constitute a new, third pillar for performance evaluation, in addition to the existing two pillars of trait-oriented factors and job-related factors. It was the adoption of ability-based personnel management that established the most popular form of performance evaluation in use today, the one that weighs three factors: trait-oriented factors, job-related factors, and ability-related factors.

One reason why ability-based personnel management was deemed necessary was, according to Nikkeiren (1969*a*: 75–77), a growing recognition of the need to give proper credit to specific abilities of employees which would not come with years of service, and which should therefore be evaluated separately on their own terms. Underlying this awareness was the fact that, as a result of the country's rapid economic growth, which brought technological innovations and an increase in workers with higher educational qualifications, the correlation between employees' years of service and their abilities grew obsolete, making seniority-based personnel management increasingly unrealistic. Another reason was a growing awareness, influenced by the spread of the MBO concept in the USA, that it was necessary to carry out performance evaluation in ways which would motivate employees. In order not to dampen the enthusiasm of capable employees whose abilities could not be evaluated properly by their years of service, it was considered necessary to evaluate their abilities in their own right.

The adoption of ability-based personnel management transformed the performance appraisal system in several other ways, although this was only recognized and defined by Nikkeiren in a later publication (1969*b*).

One such important transformation was the modification of the relative evaluation approach based on a forced curve appraisal and other techniques. While the approach remained basically as before, it was now seasoned with some elements of an absolute evaluation. Adding a touch of absolute appraisal was indispensable to motivate employees further with good appraisal ratings; but, it was equally important to encourage employees with poor appraisal records to keep participating in the competition without losing interest. This line of logic led to the adoption of a hybrid between the absolute and relative appraisal approaches.

Another transformation involved the incorporation of a procedure whereby employees would define their job objectives for and by themselves. Obviously, this latter change was influenced by the MBO concept developed in the USA.

#### 4.4. Performance Appraisal as a Means of Discriminatory Employment

The third feature of the post-war history of the performance appraisal system was and still is its widespread use as a means of discrimination against militant union members and female employees. Even when salary increases and promotion for 'ordinary' workers are determined by their years of service, militant workers and female workers have often been subjected to discriminatory treatment ostensibly because of their poor appraisal ratings.

The prefectural government of Ehime was the first to use performance appraisal as a tool of blatantly discriminatory personnel management in its notorious 1956–1957 evaluation of public-school teachers. From the moment when it announced its plan to evaluate performance, the prefectural government, one of the country's strongest bastions of conservative forces, did not even bother to conceal its intention to use the appraisal system as a means for 'red-hunting' and 'union busting'. The result of the first round of performance appraisal, carried out despite opposition mounted by the prefectural teachers' union, was the denial of salary increases of a large number of union activists and female teachers in 1957. Subsequently, the teachers' union was seriously debilitated by a rush of membership withdrawals.

The performance appraisal system had already been adopted by larger private firms, as noted earlier, but never before had the system's discriminatory use led to a serious labor dispute. The dispute fought by the teachers' union of Ehime was the first of its kind. A number of conservative-led prefectural governments across the country followed Ehime's lead beginning in 1958. The national teachers' union staged a nationwide campaign to oppose the appraisal system, and it became a nationally contested issue. Apparently, it was in the course of this campaign that many of the other militant unions became cautious of the performance appraisal system.<sup>4</sup>

Why the performance appraisal system could be easily used as a means of discrimination can be largely explained by the characteristics of the system as practiced in Japan: in spite of its heavy reliance on subjective, not objective, factors in evaluating performance, the system does not require informing the employees of their ratings; very few workplaces have a procedure for filing complaints about the ratings and for handling such complaints; and legal mechanisms for the relief of employees unduly discriminated against are inadequate. An appraisal system with such characteristics can readily serve managers, intent upon discriminating against undesirable employees, as a very convenient tool.

The practice of using the appraisal system as a means of discriminatory personnel management spread rapidly to private firms beginning in the early 1960s. It was facilitated to a significant extent by a major shift taking place at the time in industrial relations in the private sector, which battered militant union members into minority positions, either as minority unions dwarfed by majority unions collaborative with management, or as small militant caucuses within cooperative unions. And these militant unionists were discriminated against in salary raises and promotion, not only by company management, but also, and frequently, by cooperative unions, or more specifically, by supervisors in the post of *kakarichō* (sub-section manager) who, under the prevailing industrial relations practice, are usually also members of such unions, and who act as the first-tier appraisers.

The number of claims filed with prefectural labor relations commissions by the affected militant unionists against unfair labor practices snowballed beginning in the mid-1960s, accounting by the decade's end for more than 30% of the new claim filings.

It was the Japanese employment practice, among other factors, that enabled the affected employees to seek redress from labor relations commissions. In fact, most firms, even after their adoption of the idea of ability-based personnel management, stuck very firmly to the traditional practice of making decisions on pay raises and promotion exclusively based on years of service, at least as far as employees below certain ranks were concerned; and the prevalence of this standard practice made it easy for employees excluded from it to substantiate their claims that they were subjected to unfair labor practice. Endo (1997) looks into one instance of such discriminatory practice.

Recent years have seen, somewhat belatedly, a gradual increase in the number of lawsuits filed by female employees in search of redress from what they claim to be forms of discrimination against them, meted out on the basis of performance appraisal. For instance, a group of female employees of Hitachi Ltd instituted a lawsuit against their employer in March 1992, followed by another, filed in December 1993, by a group of female employees of Nomura Securities Co. Ltd, with the claim that they were discriminated against in performance evaluation and thus in pay raises and promotion, for no other reason than their being female. Underlying the increase in these lawsuits is the fact that the number of female employees in larger firms willing to stay on the job for extended

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4. Little attention has been paid to the fact that Densan and other militant unions, which were once receptive to the performance appraisal system in the early post-war years, developed a very cautious attitude toward it during the latter half of the 1950s.

periods has been on the increase, if rather slowly, and that, consequently, the incidences of discrimination against them have begun to draw greater attention than previously.

Whereas the 1960s saw the American performance appraisal system come under stronger regulation by Title VII of the Civil Rights Act, the same decade saw the Japanese system, without strong legal restraints, come into wider use by firms as a means of discriminatory employment practice.

## 5. Conclusions

The realities surrounding the American and Japanese performance appraisal systems might have entered a new stage of development since the 1980s, when there was a phenomenal increase in the number of Japanese firms launching their offshore operations in the USA. It is well known that in Japanese-owned firms in the USA, a predominant portion of managerial positions are occupied by Japanese employees on loan from the parent companies, who supervise their American employees. And there is a likelihood that the Japanese managers serving their short tours of duty may evaluate the performance of their American subordinates according to standards quite similar to those used in Japan. American employees, for their part, may find the Japanese-type appraisal system discriminatory and may bring suits against their employers. It is also very likely that the courts may order Japanese-owned firms to revise their Japanese-type appraisal system to comply with the requirements of Title VII of the Civil Rights Act.

A case in point is a lawsuit which was brought against Sumitomo Shōji in 1984 by its American employees for its alleged discriminatory employment conduct in violation of Title VII, and which reached an out-of-court settlement in 1987. Newly added in the revised appraisal form, which replaced the old one in accordance with one of the settlement terms, was a space for the employee's signature with an accompanying 'notice about allowing for disapproval'. As eloquently symbolized by this fact, the settlement of the case resulted in a wholesale remodeling of the appraisal system into an American-style one (Japan Institute of Labor 1993: 11–12, 44–48). But it remains to be seen what feedback effects are forthcoming from the experience of Japanese-owned firms in the USA in the application and modifications of their performance appraisal system.

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